



LOUISIANA LEGISLATIVE AUDITOR  
DARYL G. PURPERA, CPA, CFE

March 12, 2012

The Honorable Cameron Henry, Representative  
Louisiana House of Representatives  
1539 Metairie Road, Suite A  
Metairie, Louisiana 70005

Dear Representative Henry:

Upon legislative request, my advisory staff performed a limited review of the revenue sharing arrangement between the New Orleans Federal Alliance (NOFA) and the master developer HRI/ECC as it relates to the *Federal City* parking complex (parking garage and retail area).

As you are aware, *Federal City* is the name given to the mixed-use development of the Naval Support Activity in Algiers, LA, anchored by the Marine Force Reserve Headquarters. The *Federal City* parking complex is a five-story building with over 1,000 parking spaces that includes 17 ground floor retail areas available for lease. The garage was built to fulfill a requirement that parking be provided to the Marine Corps.

Attached are answers to questions we developed and conclusions regarding the revenue sharing arrangements and the monitoring/oversight controls of the project. The information provided was obtained through our review of selected project documents and discussions with NOFA's Chief Executive Officer, the Executive Director of the Algiers Development District, and the Director of Federal Programs for the Louisiana Department of Economic Development.

If you have any questions, please contact Eric Sloan or Michael Cragin at (225) 339-3800.

Sincerely,

Daryl G. Purpera CPA, CFE  
Louisiana Legislative Auditor

DGP:ES:MC:lm

cc: The Honorable Hunter Greene, Representative  
Legislative Audit Advisory Council, Chairman  
8708 Jefferson Highway, Suite B  
Baton Rouge, Louisiana 70809

(03-12-12) Federal City Parking Complex

## Questions and Answers

### **1. What is the basis for the contractual arrangement/relationship between the New Orleans Federal Alliance (NOFA) and the master developer HRI/ECC regarding the parking complex in *Federal City*?**

There is a Master Sublease agreement between NOFA and HRI/ECC that was signed in September 2008 (3½ years ago), which provides the basis for allocating lease revenues between them.

According to this agreement, HRI/ECC is to receive 88% of the parking complex revenue<sup>1</sup> and NOFA is to receive 12% of the revenue. However, the Master Sublease is an extensive agreement that also includes provisions for such items as:

- A change in the parking complex revenue allocation upon achieving a certain level of retail economic activity will result in a 6% percent reduction in revenue allocated to NOFA (from 12% to 6%);
- The establishment of separate "Development Agreements" to address the development and financing, including certain fees, of other projects in *Federal City*. For example, the development agreement for the parking complex is different from the one that was established for the Marine Forces Reserve Facilities (headquarters building).

### **2. What percentage allocation of revenue is NOFA and HRI/ECC currently receiving from the parking complex?**

Currently, NOFA is to receive 12% of the parking complex revenues and HRI/ECC, 88%. However, this revenue split has not occurred and is not expected for at least a year.

According to the Master Sublease agreement, before this split is made, operations and debt service expenses must be deducted from the total parking complex revenues. These two expenses are estimated by NOFA's chief executive officer to be \$145,000 annually. At this point, there are three tenants renting space in the retail area of the parking complex which we understand has generated less than \$15,000 of revenues to date. Since total revenues are estimated at less than \$15,000, there are not sufficient revenues to "cover" the expenses. HRI/ECC is currently receiving the revenue from the tenants.

We also understand that all parking is free at the complex and that this was a basic requirement of the project. Furthermore, we were informed that parking revenues are not expected in the future.

### **3. What oversight/monitoring controls were in place regarding the state funds used for the *Federal City* project?**

Louisiana Department of Economic Development (LED) and their independent contract monitor (CSRS) were primarily responsible for monitoring the \$150 million in state funding provided for the *Federal City* project. This monitoring included the parking complex which was constructed for approximately \$19 million.

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<sup>1</sup> The Master Sublease provides that NOFA will receive an amount equal to 12% of HRI/ECC's net project cash flow remaining after debt service. The Master Sublease implies that HRI/ECC's share is 88%.

LED entered in to a cooperative endeavor agreement (CEA) with NOFA (and other entities) to provide a measure of control over the use of public funds for this economic development project. The CEA included contract monitoring requirements for LED and reporting requirements for NOFA. It appears that, beginning in 2008, CSRS provided extensive monitoring and monthly reporting to LED.

We note that ADD has a cooperative endeavor agreement with NOFA which primarily provides oversight responsibilities related to the local funds spent by NOFA. However, the CEA does require NOFA, among other things, to "provide on a monthly basis, a written report to the ADD, the City Council and Mayor, which details all activities and progress as related to the scope of services, deliverables, expenditures, and progress of *Federal City*. Those updates shall be formally presented to the ADD, the City Council, and Mayor, as requested by ADD." We were informed that this requirement of written monthly reports was not met. However, we understand there was communication between the parties as ADD staff monitored NOFA board meetings and NOFA's chief executive officer attended ADD board meetings.

Neither of the CEAs required ADD or LED to review and/or approve the fees and revenue sharing arrangements provided for in the Master Sublease and related Develop Agreements.

## Conclusions

Based on our limited assessment, it appears that:

1. NOFA and HRI/ECC have acted on the basis of their Master Sublease. It is through the authority of the Master Sublease that NOFA and HRI/ECC established the revenue sharing arrangements pertaining to the 17 retail spaces located on the ground floor of the parking complex.
2. There was no requirement in the Cooperative Endeavor Agreements or LED's Contract Monitoring agreement that NOFA and HRI/ECC must obtain approval from LED or ADD for fees and revenue sharing arrangements.
3. The Master Sublease noted that NOFA was formed to lead the development and operation of the *Federal City* Project. Unless ADD or LED had objected to the provisions of the Master Sublease or required NOFA to obtain approvals for agreements developed under the Master Sublease, it appears that NOFA was acting in its assigned role.
4. Given the lack of substantial revenues generated currently by the parking complex, the larger issue appears to be how to secure the tenants that can help generate the thousands of jobs envisioned by the *Federal City* project. As previously stated, there is no expectation of parking revenue. The only revenue stream related to the parking complex will be from the rental of the 17 retail spaces.
5. LED has conducted extensive monitoring of the \$150 million in state funding for this project. This monitoring seems to be more than just fiscal monitoring. For example, we reviewed reports where LED's contract monitor made site visits to inspect construction items. ADD's monitoring has been more concentrated on local funding provided to the project.